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ABSTRACT

A study sought to determine how and why small businesses invest or do not invest in basic skills instruction for their workers. Data were gathered through a national mail and telephone survey of a random sampling of 11,000 small (50 or fewer employees) and medium-sized (51-400 employees) firms, a targeted mail survey of 4,317 manufacturers, a telephone survey of 1,535 junior college staff, and case studies of 72 small and medium-sized firms in 5 states. Key findings of the study included the following: (1) only 3-5 percent (15,000-25,000) of small firms have workplace education programs; (2) the number of small business program starts has increased dramatically in the last 3 years; (3) manufacturing firms have started more programs than have service firms; (4) medium-sized businesses are much more likely to have workplace education programs than are very small businesses; and (5) community colleges are the education partners of choice for most small companies. The study also determined that small business programs tend to be low intensity, quick-fix types; few offer lifelong learning. Employers who offer programs do so because of competition, a need to produce high quality products, and enlightened human resource policies. Although the median cost of programs was $5,000-$10,000, employee skills upgrading programs paid off in improved worker performance and bottom-line gains. The study concluded that much work is needed to overcome barriers to workplace training by small businesses. Recommendations include involving trade associations and unions, the states, and the Federal Government, and creating a Cooperative Extension model. (KC)

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THE MISSING LINK: Workplace Education in Small Business

A recently-released report by Forrest Chisman and the Southport Institute for Policy Analysis (SIPA) throws major light on the state of workforce literacy in America's small businesses—a subject that until now has received little focussed attention. The report, called The Missing Link: Workplace Education In Small Business,* summarizes a two-year study by SIPA. It is the first comprehensive, systematic inquiry into what small businesses are doing and not doing to upgrade their workers' basic skills and the factors and barriers that account for their action or inaction in this area.

How and why do small businesses invest in basic skills instruction for their workers? What are their characteristics? What are they getting from that investment? How many are offering such programs? Are there significant differences between firms that offer employee basic skills upgrading and those that do not? What reasons do small business firms give for not implementing a program? What connections exist between work reorganization in this sector and the provision of basic skills instruction? What policies would be most effective in helping small businesses on a large scale to implement the employee basic skills programs they need (*more than 10 million small business employees have basic skills problems that impair their performance on the job*), and what forces make this a national priority? These are among the questions at the heart of SIPA's inquiry.

The study is important because small businesses are the backbone of the nation's economic enterprise. Together they represent 99% of all U.S. businesses, employ 57% of the workforce, and generate 47% of the gross national product. They also generate two out of every three new jobs. They are, then, crucial to the nation's overall productivity, its competitive stance in world markets, and ultimately, its traditional standard of living.

Every major study of the past few years has found a hot connection between the ability of U.S. business to hold its own in the global marketplace and the need for skills upgrading in the workforce. But it is also coming to be understood that skills upgrading by itself will not be enough, that to achieve real results worker education will have to be accompanied by the reorganization of work into high performance systems. This is true, says The Missing Link, for small businesses as well as large.

A central concern underlying the study was that, given the current high interest of national and state leaders in improving workforce basic skills, there is no way to know if ideas for new public and private initiatives to advance this goal "would benefit small firms and their employees, or be off target, wasteful, and possibly filled with perverse effects." SIPA's bottom-line purpose is thus to provide information and analysis that will give policymakers at all levels of society a better understanding of small business needs and operating realities, and to offer recommendations for productive action.

The Research Approach

One phase of the study consisted of four surveys. Included were a national mail and telephone survey of a random sampling of 11,000 small and medium-sized firms, a more targeted mail survey of 4,317 members of the National Association of Manufacturers, and a separate telephone survey of 775 small firms. A fourth survey queried 1,535 members of the American Association of Community and Junior Colleges (AACJC) to learn about the "supply side" of employer-sponsored basic skills instruction.

A second component of the study consisted of case studies of 72 small and medium-sized firms in five states.** The U.S. Small Business Administration defines a small business as having 500 or fewer employees. For purposes of its study, SIPA broke this universe into two groups: very small firms having 50 or fewer employees and medium-sized firms having any number of employees greater than 50 up to 500.

Some Key Findings

• *At present, 3-5% of small firms have workplace education programs in operation.* In numbers, this ranges from 15,000 to 25,000 programs. These programs serve some 200,000 to 300,000 people in

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* The Missing Link was released together with a related background paper by Laurie Bassi, Smart Workers, Smart Work, which contains the project's research details and findings. The reports are available separately from the Southport Institute.

** Two-thirds of the case-study firms provide basic skills instruction in some form to their employees; four were profiled by SIPA earlier this year in a publication called Ahead Of The Curve.

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some way each year. This is about equivalent to the number of adults being served by the education components of major federal education/training programs.

- *The number of new small business program starts has increased dramatically in the last three years.* Workplace literacy programs are commonly thought to exist almost entirely in big business settings — the IBM's, XEROX's, and other industry giants. But a growing number of small firms have decided that investing in the basic skills of their workers pays, and many have been operating workplace education programs for some time. A few firms report programs dating back to the 1960s or earlier.

- *Manufacturing firms have taken the lead in introducing workplace education programs in the past three years* — although non-manufacturing (service) firms account for the majority of existing worker skills upgrading programs. Moreover, manufacturing firms are more likely than other firms to have initiated the education programs, and on average they make larger investments in them.

- *Manufacturers are also in the lead in initiating some form of work reorganization during the past three years* (51%-77% of manufacturing firms as contrasted to 34-51% of service firms).

- *Medium-sized firms are much more likely to have workplace education programs than very small businesses.* Moreover, their programs tend to be more substantial in that they last longer, provide instruction in a wider range of skills, meet more frequently,

and are likely to be led by trained teachers working from customized curricula.

- *Community colleges are the education partners of choice for most small companies, and indeed they are their most common partners.*

- *The vast majority of programs are taught at the worksite.* More often than not participation is voluntary, with partial released time given to workers. The most frequent pattern is a 50-50 donation of time by employer and employee.

- *Contrary to expectation, the issue of released time is not a major barrier to the establishment of workplace education programs.* This is true even though in most cases a shared-time arrangement results in a longer day for the employee.

- *Worries about higher employee turnover as a result of improved education is not the major disincentive to providing workplace literacy programs that has commonly been thought*, even though to some extent whatever is learned is "portable." In fact, small businesses with education programs report lower turnover rates than those without.

Types Of Programs & Subjects Taught

Small business programs being provided tend to be of three types:

Low Intensity Programs. These involve the least effort on the part of the companies and the instructional providers, and they are the least complex. Typically, they have individual tutoring arrangements worked out by the employer with an outside group. They are given both on site and off. The curriculum is mainly generic rather than job-related, though it may occasionally include GED preparation. It is directed to very low-skilled employees.

Quick-Fix Programs. These are of short duration, undertaken to solve an acute skills problem identified by the company, for example in math or ESL. They are often conducted in manufacturing firms that are implementing Statistical Process Control (SPC) when it is discovered that workers cannot do the simple fractions, decimals, measurements, and graph reading that SPC requires. Service sector firms that sponsor quick-fix programs—short ESL courses, for example—do so not with the goal of helping workers to become completely fluent, but to make basic on-the-job communication possible.

Lifelong Learning. Of high complexity and long duration, these are the most celebrated and least common kind of workplace education program. (They occur in less than one percent of the firms.) They provide workers with the opportunity to improve multiple skills and to continue their education as long as they wish. *They are almost always job-related in some way, built around the literacy requirements of current and future jobs.* Few employers set out to create lifelong learning programs, but have usually backed into them by a gradual expansion of more limited efforts.

Across the board, the skills most commonly taught are techniques of problem identification and problem solving, and interpersonal (team building) communications. Manufacturing firms are much more likely than service firms to teach GED and academic skills, with math at the top of the list. In general, reading and writing are next, with ESL less frequently taught (except in areas of the country with large immigrant populations and in service industries that rely heavily on such people—e.g. hospitality, health service, construction).

Many programs also teach general skills needed to get along in everyday life, sometimes because it is requested by the workers and employers want to sustain their interest. It is notable that in programs that require workers to donate their own time for participation in class, the workers' personal needs are more likely to influence the content, nature, and purpose of instruction.

Why Employers Who Offer Programs Do It

Competition. Firms that launch education programs report that they are under competitive pressure, especially international competition, and face demands from customers to improve their performance. (Many are suppliers to large business enterprises.) At the same time, they report that a large percentage of their hourly workers have basic skills problems that affect their performance on the job.

Many of these firms value the experience of their older workers and think that new hires are unlikely to be more skilled. They also tend to think their firms are unique and thus prefer to train their workers in their own way of doing things. Moreover, many have a tradition of loyalty to their employees which plays an important role in their decision to implement a basic skills upgrading program.

Quality. Though many firms are faced with both competitive pressures and poorly skilled workers, they still do not invest in workplace education, or they do so only minimally. The major difference between those that offer programs and those that do not is the emphasis placed on quality of production and service. "Workplace education in small firms is part and parcel of the quality movement in American business," says Chisman. Companies that mount education programs usually are those that have decided they must compete by improving the quality of their operations on a continuing basis. Typically, this involves introducing better technology and new forms of work organization. While it is possible to do this with only minimal attention to workforce skills, these companies believe that for a higher quality (performance) workplace to function well, a higher quality workforce is essential. Thus, their education programs tend to include both job-specific training and general education.

Enlightened Human Resource Policies. Those firms where workplace education is most likely to take root are in general more forward looking and more enlightened in their human resource development policies. Their corporate culture is frequently described as "worker centered." These firms provide higher wages, more benefits, greater opportunities for advancement, and more training of every sort than other companies of their size. They believe that a key to improving the quality of their operations is to develop flexible workers who can adapt to change. They may therefore offer cross training in a number of jobs so that employees can take greater responsibility, function better in teams, trouble shoot, and contribute ideas that will help the firm work better overall.

Committed Managers Are Essential

The success of small business workplace literacy programs depends more than anything else, says the study, on a strong commitment by senior managers to make them work. The evidence indicates that in the best programs, senior managers devote major time and resources to implementing the program. They also devote time to getting their workers to see that their future and jobs depend on the well-being of the company as a whole. It is worthy of note that firms providing programs don't necessarily have a more serious basic skills problem than those that don't offer programs. They simply care about the problem more, consider poor basic skills to be a very serious problem, and believe they must assume responsibility for solving it.

Workplace Education Pays

One of the study's main findings is that *employee skills upgrading programs have a handsome pay-off in both improved worker performance and bottom line gains.* The firms that invest in education programs are gaining far more benefits from new technology and the reorganization of work than firms that have introduced quality programs but do not provide basic skills education. Where the two operate in tandem, it has resulted in improvements in productivity, customer satisfaction, delivery time, scrap and error rates, and worker morale.

Other highly-valued gains were found as well. Both employers and workers report significant improvements in employee motivation, self esteem, willingness to take responsibility, ability to perform well in teams, and communication and problem solving.

Costs & Financing

Firms offering workplace education programs report a wide range of costs, with the median falling between $5,000 to $10,000. At the high end, case study research indicates that lifelong learning programs in firms with 100-300 employees cost the firms $30,000 to $40,000. But because these programs are generally subsidized in roughly equal amount by outside education partners (usually community colleges), the full cost is probably somewhere in the range of $60,000 to $80,000, excluding the value of the company's management time and employee released time, for which there are no reliable estimates.

Obviously these cost ranges simply tell what many firms presently pay for workplace education programs with which they are satisfied. Precise costs are in fact very hard to pinpoint. For one thing, no two programs are alike. Variables that influence cost include the length of time a program operates, the number of subjects taught, how many workers participate, the amount of released time given, the extent to which the program is customized, and so on. For another, firms do not compute their costs on a uniform basis. Some may consider only out-of-pocket costs, while others include management time and/or employee released time. And further, small companies do not and probably could not measure costs with any precision because their actual cash outlay is minimal and the other cost variables are so difficult to quantify.

The important point is that for the majority of firms *cost is not the supposed high barrier to introducing workplace education programs that has been supposed*, though this depends to some extent on the size of the firm. The study finds that medium-sized firms (over 50 employees) can usually afford almost any form of workplace education. They employ about one-third of the American workforce and are the companies most likely to report programs. For smaller firms, those with fewer than 50 employees, costs are more likely to be an issue.

To costs that could be measured, companies and education providers contribute about equally.

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Typically, the employers pay for staff planning and implementation, employee released time, and the costs of instruction. Education provider groups generally assume the overhead and technical assistance costs involved in helping firms diagnose their needs and develop customized programs. But, in fact, the study reveals, small business programs are heavily subsidized by the publicly-supported adult education institutions with which they work because these groups provide their services at marginal cost so that small companies can afford it.

The Challenge: Overcoming The Barriers

That the small business workplace literacy movement has come as far as it has with so little initiative and support from outside sources is seen by SIPA as extraordinary. It also testifies to how serious the need is. For despite the outstanding success of programs in companies that have implemented them well, only 3-5% of small firms have mounted any program, and only 1-2% have programs that are extensive. Even though this translates into service for 200,000 to 300,000 people each year, 10 million workers need to be reached. Consider the potential.

On the demand side of the equation, the study found that as many as 20-30% of medium-sized firms would like to have programs because of a perceived basic skills problem. Moreover, many that are presently investing in programs say they would like to expand and improve their efforts. At the same time, a very large percent of all employers indicate that they are moving toward work reorganization, including the shifting of greater responsibility to workers. Even though they may not now wish or intend to launch a basic skills upgrading program, they seem to understand that they will need a more highly-skilled workforce.

On the supply side, most community colleges (the education partners of choice) and other provider groups say they would like to extend their services to more companies.

In short, the number of firms engaging in workplace basic skills upgrading could and should be many times as great as it is now. The number of workers who would benefit from these programs should rise into the millions. The service providers would like to accommodate them. The question is: If costs, high turnover, and other presumed obstacles do not stand as major impediments, what does?

To begin with, half the companies not offering skills upgrading programs say that they don't need to. But they nevertheless report employee basic skills problems to the same degree as firms that have programs. So clearly there are other factors at play.

One major barrier, according to the firms themselves, is that *they don't have enough information to know whether a program would be valuable.* They are generally aware of the national basic skills problem, but they know very little about its specific nature or how it relates to their own firms. They know very little either about model workplace education programs being offered elsewhere or the gains they produce.

An equally important barrier is that *the majority of small businesses don't know where to turn for help.* They themselves don't have the know-how, time, or staff to assess their needs and design suitable services. But even if they did, finding an outside group to work with them—on assessment, program design, and program operation—is time consuming at best and an ad hoc activity that often results in false starts and disillusionment.

Few outside provider groups have the understanding and expertise to develop effective workplace education programs. Their staff are new to this area of adult education. They have had little training in how to do a first rate job of helping firms understand their needs, develop customized programs, and establish a good working partnership. Too often, they try to sell employers a standard, prepackaged curriculum which is unsuited to their needs. Like small businesses, many are learning by trial and error. *The need for a systematic approach to staff development in this field is urgent.*

As things now stand, the national effort can be characterized as a cottage industry of ad hoc public-private partnerships, within which are many successful and workable models. Workplace literacy, as SIPA sees it, is a major growth area. *The immediate challenge, as a national priority and economic imperative, is to extend those models to the hundreds of thousands of firms that want to give workplace education a try and to develop policies and programs that will begin to break down the informational and technical assistance barriers reported by small businesses across the board.*

At present, there is a missing link between the need and demand for workplace literacy programs for small business employees and the capacity of outside organizations to help fill the demand, and to fill it effectively. Yet because small businesses, by their very nature, must rely heavily on outside groups to implement programs, SIPA concludes that *the aim of public and private policy and action should be to stimulate and build upon the public-private partnerships that are at the heart of the small business approach.* This means that major attention must be given to the "supply side" of the equation.

The effort of educators to provide workplace education, like the interest of small business employers, is fledgling. Most programs are only a few years old, and many colleges have only recently begun to offer services. The number of companies they serve is small, less than 20 at any given time. (The number of firms served each year per state by all providers is 200-300 on average.) In short, quite apart from the staff development need, their ability to supply services is unable to keep pace with demand. *The major barrier keeping colleges from expanding their efforts is inadequate funding and personnel.*

Employers usually pay a fee for college services, except in some states such as North Carolina where state policy requires the service to be provided free. However, as noted earlier, they rarely pay the full cost, and the colleges must fund the balance from bits and pieces of funding intended for other purposes. Because workplace education is a relatively new service, it is often a marginal part of community college life. State policy does not define it as a major community college mission, and college administrators rarely give it high priority.

Tight funding is one of the reasons colleges do not market their services aggressively, says the study. They tend instead to wait for companies to come to them. One consequence is that they rarely serve the very small firms, partly because those firms are short of time and resources. Yet very small businesses employ almost as many people as medium-sized companies. Moreover, case study evidence reveals that firms with as few as 35 employees can support excellent programs if they receive the assistance they need.

To Forge The Missing Link

To overcome the problems and barriers, SIPA calls for new initiatives at the local, state, and national levels, with fairly well defined responsibilities for each player, especially the federal government:

Trade Associations & Unions. Small businesses say they prefer their trade associations to demystify basic skills and point them toward the right form of hands-on assistance. They want that help to come from state and local groups, not the federal government whose programs they view as out of touch with their needs. For its part, organized labor has been very active in the basic skills efforts of large companies. Most small firms are not unionized, but where they are, unions could play a key role in promoting new programs.

The States. The supply of workplace literacy programs is strongly influenced, according to SIPA, by state policies. Among many priority steps the states should take are these: Make funds available specifically for literacy programs for small businesses. Remove limits on the amount of contract work that community colleges and others can undertake. Dedicate employer fees to a workplace education revolving fund rather than, as at present, to the general state fund for educational institutions. Develop a system of quality control for workplace education, including centers of information, expertise, and oversight. Make grants to help stimulate employer interest. Form consortia of very small businesses whose employees can be collectively served. At the local level, develop points of contact visible to the business community.

Some states have already begun to take such measures. Indeed, the experience of Massachusetts, South Carolina, and Virginia, in particular, suggests a model for structuring support for workplace education. The foundation is local. It employs a statewide system of workforce specialists who, for logistical purposes, are housed in the local education institutions that provide the services. Their function is to serve as a broker between local supply and demand and between local and state-level groups, to promote workplace education to employers and suppliers, and to be a visible point of contact and expertise for both. These specialists are a source of one-stop shopping for the companies, and for suppliers they are a source of expertise and clients. Simply put, the state's role is two-fold: to provide a state office dedicated to workplace education, which provides and supports local specialists through funding and technical assistance; and to enact policy measures that will enhance funding and remove barriers.

The Federal Role. SIPA points out that the federal government is now providing an estimated $74 million to $125 million for workplace education in small businesses through its support of the public institutions that provide the services. "This is a pittance," the report states, "compared to other federal programs aimed at major economic and education problems. And, by all indications, it is money very well spent."

But this federal involvement is haphazard and inadvertent. Much of the funding comes from programs designed for other purposes. Nothing exists for small business workplace education as its expressed purpose (although the Department of

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Education's workplace literacy grants program provides some funding for small business initiatives). The result is instability of support, but also lack of guidelines to determine whether federal monies are being used well. More importantly, there is no federal plan. No one is responsible for seeing to this area of need, for targeting investments on the highest priorities, for promoting the cause, for tracking the use of federal funds, or for sponsoring research and information dissemination that would be helpful to small businesses and local provider groups.

What is missing is a center of gravity, a solid core responsible for all these issues. And providing that core on a national basis is something that only the federal government can do. What is needed is an effective model for federal involvement. Fortunately there is one at hand.

The Cooperative Extension Model

The Cooperative Extension Service of the U.S. Department of Agriculture, in operation since 1914, is one of the most successful federal programs ever implemented. It has been a major force in achieving the revolution in American farming that has made agriculture our highest productivity industry.

The Service is based on a network of local county agents who serve as sources of information and technical assistance for individual farmers, as brokers between farmers and other institutions, such as state universities, that can help them, and as advocates for a new style of farming. Their primary mission in the early days was to use the demonstration method to help farmers try out new ideas on their own land. The agents are supported by centers of knowledge at universities, the Department of Agriculture, and elsewhere. Funding comes from federal matching grants to the states. Training, information, back-up, and oversight comes from the Department.

The analogies are self-evident. The model would solve the central problems holding back development of basic skills instruction in small firms. It would supply the missing link between supply and demand at the local level, provide a stable stream of funding for technical assistance and outreach, and create a method by which to monitor and improve quality.

Such a system transplanted to workplace literacy education need not be expensive, the report indicates. It would be structured on a program of federal matching grants to states, administered by a federal office of workplace education. The grants would be for two purposes: to establish state-level offices of workplace education and provide support for a national network of workforce specialists.

With states matching at a level of 15%, a federal authorization of about $120 million a year would cover the costs—a bargain basement price that is less costly than any other major federal education and training effort in existence today.

(A full copy of The Missing Link is available from SIPA for $17.95. Smart Workers, Smart Work and Ahead Of The Curve, two related publications, are available for $17.95 and $25.00 respectively. All three publications are available as a package for $40.00. Send prepaid orders to the Southport Institute for Policy Analysis, Suite 460, 820 First Street NE, Washington, DC 20002.) ■